

COUNTY ADMINISTRATIVE OFFICE

BUDGET UNIT: CONTINGENCIES AND RESERVES (AAA CNA, CNR, CON)

I. GENERAL PROGRAM STATEMENT

Board Policy requires the county to maintain an appropriated contingency fund to accommodate unanticipated operational changes, legislative impacts or other economic events affecting the county's operations which could not have reasonably been anticipated at the time the budget was prepared. Funding for contingencies is targeted at 1.5% of locally funded appropriations. The contingency budget also includes an annual base allocation of \$1,000,000 for priority district and program needs. Final budget action includes a provision that allocates any difference between estimated and final fund balance be placed in contingencies.

County reserves include both general purpose and specific purpose reserves. General purpose reserves are funds held to protect the county from unforeseen increases in expenditures or reductions in revenues, or other extraordinary events, which would harm the fiscal health of the county. Board policy requires the establishment of an ongoing general purpose reserve for the general fund targeted at 10% of locally funded appropriations. Specific reserves are funds held to meet future known obligations or to build a reserve for capital projects.

II. BUDGET & WORKLOAD HISTORY

	<u>Actual 2001-02</u>	<u>Budget 2002-03</u>	<u>Actual 2002-03</u>	<u>Budget 2003-04</u>
Contingencies				
Per County Policy	-	4,790,447	-	5,223,535
Set aside for Specific Uncertainties	-	41,081,132	-	62,180,848
Transfers - Priority Policy Needs	455,971	2,645,204	477,221	3,167,983
	<u>455,971</u>	<u>48,516,783</u>	<u>477,221</u>	<u>70,572,366</u>

Actual uses of contingencies are reflected in departmental budget units.

III. HIGHLIGHTS OF BOARD APPROVED CHANGES TO BUDGET (see attachments for detailed changes)

A. Contingencies

A base allocation to the contingency budget of \$5,223,535 is established pursuant to Board policy, based on 1.5% of the budgeted locally funded appropriations of \$348.2 million. An additional base allocation of \$1,000,000 (transfers) is established for priority district and program needs.

In final budget action, the Board allocated an additional \$62,180,848 of available financing to contingencies. This amount is set aside for specific uncertainties. Specific uncertainties include uncertainty surrounding state finances, the cost of the recall election, relocation space for the courts and rising local expenses such as workers compensation, MOU adjustments, and retirement benefits. The Board also re-appropriated the unspent allocation of \$2,167,983 of the 2002-03 priority policy needs to the 2003-04 budget bringing the total to \$3,167,983.

B. Reserves/Designations

For 2003-04, general-purpose reserves are increased by \$2.9 million to conform to the Board policy. This increase is based on 10% of the budgeted locally funded appropriations of \$348.2 million and brings the balance of general-purpose reserves to \$34.8 million.

As part of the 2002-03 final budget a reserve of \$2.0 million for equity studies for the county's general employees was established pursuant to the new MOU agreement. The Medical Center Debt Service reserve was increased slightly to reflect a planned contribution pursuant to the Medical Center Financing Plan. The projected use of \$900,000 of the restitution reserve represented the estimated 2002-03 expense of the continuing corruption litigation.

During 2002-03 the Board authorized the use of \$26.7 million in contingencies to increase one existing reserve and to establish five new specific purposes reserves. \$5.5 million was used to increase the reserve for Future Retirement Rate Increases; \$5.0 million was used to establish an Insurance reserve to manage increased costs in workers compensation and property insurance, \$5.7 million was used to establish an Electronic Voting System reserve, which represents the estimated local cost of the new system; \$6.0 million was used to establish the Valley and Pepper Intersection reserve; \$4.0 million was used to establish a Capital Projects reserve; and \$0.5 million was used to establish the Bark Beetle reserve to address the infestation in the local mountains.

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During 2002-03 the Board approved the use of the \$6.0 million in the newly established Valley and Pepper Intersection reserve to fund the design and construction of the intersection. The Board also approved the use of the newly established \$0.5 million Bark Beetle reserve. The use of \$6,365,153 of the Restitution reserve was allocated to the Solid Waste Management Division to finance costs related to the perchlorate investigation at the Mid-Valley Sanitary Landfill. The budgeted use of \$900,000 of the Restitution reserve was reduced to \$870,470 to reflect actual budgetary expenses of the ongoing corruption litigation. Other uses include \$70,000 from the Justice Facilities reserve to purchase a modular office building to be used as a Sheriff's substation in Montclair and the use of \$122,856 of the Equity Pool reserve to fund equity increases for employees in the District Attorney, Public Defender and Assessor departments.

For 2003-04 the Equity Pool reserve, which funds the costs and results of employee classification studies, is increased by \$3.0 million. Uses of \$160,949 of the Equity Pool are planned to fund the 2003-04 costs of equity increases in the District Attorney, Public Defender and Assessor departments approved by the Board in 2002-03. A planned use of \$1.0 million of the Justice Facilities reserve will be used to offset a portion of the first year cost of the recently approved safety MOU. In final budget action the Board established a reserve of \$1.0 million for the Museum's Hall of Paleontology allocated an additional \$2.0 million to the Bark Beetle Reserve, and established, but did not fund, a Library Facility/Book reserve.

	2001-02 Ending Balance	2002-03		2002-04		Estimated 30-Jun-04 Balance
		Approved Contributions	Approved Uses	Recommended Contributions	Recommended Uses	
General Purpose Reserve	30,227,528	1,708,782		2,887,258		34,823,568
Specific Purpose Reserves						
Medical Center Debt Service	31,992,306	82,599				32,074,905
Teeter Reserve	19,260,087					19,260,087
Restitution Reserve	8,858,662	491,195	(7,235,623)			2,114,234
Retirement Reserve	1,500,000	5,500,000				7,000,000
Justice Facilities Reserve	4,955,408		(70,000)		(1,000,000)	3,885,408
West Valley Maximum Security	1,492,986					1,492,986
Equity Pool Reserve		2,000,000	(122,856)	3,000,000	(160,949)	4,716,195
Insurance Reserve		5,000,000				5,000,000
Electronic Voting Reserve		5,700,000				5,700,000
Pepper & Valley Intersection Reserve		4,000,000				4,000,000
Bark Beetle Reserve		6,000,000	(6,000,000)			-
Museum's Hall of Paleontology		500,000	(500,000)	2,000,000		2,000,000
Library Facility/Book Reserve				1,000,000		1,000,000
Total Specific Purpose	68,059,449	29,273,794	(13,928,479)	6,000,000	(1,160,949)	88,243,815
Total Reserves	98,286,977	30,982,576	(13,928,479)	8,887,258	(1,160,949)	123,067,383